

**REPORT OF THE AUDIT OF THE
GRAVES COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES**

For The Period April 29, 2006 Through April 27, 2007

Romaine
and
Associates PLLC

CERTIFIED PUBLIC ACCOUNTANTS

**REPORT OF THE AUDIT OF THE
GRAVES COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES**

For The Period April 29, 2006 Through April 27, 2007

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
GRAVES COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period April 29, 2006 Through April 27, 2007

Romaine & Associates, PLLC has completed the audit of the Sheriff's Settlement - 2006 Taxes for Graves County Sheriff for the period April 29, 2006 through April 27, 2007. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$8,058,884 for the districts for 2006 taxes, retaining commissions of \$332,028 to operate the Sheriff's office. The Sheriff distributed taxes of \$7,718,796 to the districts for 2006 Taxes. Taxes of \$1,093 are due to the districts from the Sheriff and refunds of \$1,065 are due to the Sheriff from the taxing districts.

Report Comment:

- Sheriff's Office Lacks Adequate Segregation of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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Krista Romaine, CPA, Member
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CERTIFIED PUBLIC ACCOUNTANTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Tony Smith, Graves County Judge/Executive

Honorable John Davis, Graves County Sheriff

Members of the Graves County Fiscal Court

Independent Auditor's Report

We have audited the Graves County Sheriff's Settlement - 2006 Taxes for the period April 29, 2006 through April 27, 2007. This tax settlement is the responsibility of the Graves County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Graves County Sheriff's taxes charged, credited, and paid for the period April 29, 2006 through April 27, 2007, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated July 10, 2008 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Tony Smith, Graves County Judge/Executive
Honorable John Davis, Graves County Sheriff
Members of the Graves County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Sheriff's Office Lacks Adequate Segregation of Duties

Respectfully submitted,

Krista Romaine
Romaine & Associates, PLLC

July 10, 2008

GRAVES COUNTY
JOHN DAVIS, SHERIFF
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period April 29, 2006 through April 27, 2007
Special

<u>Charges</u>	<u>County Taxes</u>	<u>Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 970,099	\$ 1,121,834	\$ 3,008,959	\$ 1,369,378
Tangible Personal Property	94,612	119,572	261,540	335,902
Fire Protection	698	402,520		
Increases Through Exonerations		20,152		
Franchise Taxes	114,901	155,042	345,308	
Additional Billings	2,792	3,743	3,175	3,124
Oil and Gas Property Taxes	196	213	765	276
Limestone, Sand and Mineral Reserves	100	108	389	140
Bank Franchises	95,750			
Penalties	7,039	12,520	22,718	10,258
Adjusted to Sheriff's Receipt	(3)	34		(4,882)
Gross Chargeable to Sheriff	\$ 1,286,184	\$ 1,835,738	\$ 3,642,854	\$ 1,714,196
<u>Credits</u>				
Exonerations	\$ 3,585	\$ 6,176	\$ 10,741	\$ 4,995
Discounts	18,562	25,387	50,850	26,730
Delinquents:				
Real Estate	17,845	37,496	46,399	25,099
Tangible Personal Property	528	667	750	1,849
Intangible Personal Property	93	102	364	131
Additional Billing	57	220	181	84
Franchise Taxes:				
Delinquent- Current Year	18,236	30,947	65,903	
Uncollected- Current Year	65	82	223	
Delinquent- Prior Year	4,379	4,683	16,679	
Total Credits	\$ 63,350	\$ 105,760	\$ 192,090	\$ 58,888
Taxes Collected	\$ 1,222,834	\$ 1,729,978	\$ 3,450,764	\$ 1,655,308
Less: Commissions *	52,258	71,101	138,031	70,638
Taxes Due	\$ 1,170,576	\$ 1,658,877	\$ 3,312,733	\$ 1,584,670
Taxes Paid	1,169,545	1,657,027	3,308,671	1,583,733
Refunds (Current and Prior Year)	1,214	1,534	3,360	1,744
Due Districts or (Refunds Due Sheriff) as of Completion of Audit	\$ (183)	\$ 316	\$ 702	\$ (807)

The accompanying notes are an integral part of this financial statement.

GRAVES COUNTY
 JOHN DAVIS, SHERIFF
 SHERIFF'S SETTLEMENT - 2006 TAXES
 For The Period April 29, 2006 Through April 27, 2007
 (Continued)

* Commissions:

10% on	\$ 10,000
4.25% on	\$ 4,152,176
4% on	\$ 3,853,097
1% on	\$ 43,611

** Special Taxing Districts:

Library District	\$ 70
Health District	79
JU Kevil	(40)
Watershed District 1	212
Watershed District 2	25
Volunteer Fire Departments	
Lowes	(2)
Melber	(19)
North Graves	(14)
Rescue Squad	4
Viola	1
	<hr/>

Due Districts or

(Refunds Due Sheriff)

\$ 316

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENT

April 27, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue, which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue, which are recognized when there is proper authorization. Taxes paid are uses of revenue, which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENT
April 27, 2007
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 27, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2006. Property taxes were billed to finance governmental services for the year ended June 30, 2007. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 25, 2006 through April 27, 2007.

B. Limestone, Sand, and Gravel Reserves

The tangible property tax assessments were levied as of January 1, 2006. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was December 21, 2006 through April 27, 2007.

C. Franchise Taxes

The franchise real and personal property tax assessments are levied throughout the year on public service corporations. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was June 1, 2006 through July 31, 2007.

D. Clay Property Taxes

The Clay tax assessments are levied as of January 1, 2006. Clay property taxes are billed to finance government services. Liens are effective when tax bills become delinquent. The collection period for these assessments was December 21, 2006 through May 31, 2007.

Note 4. Interest Income

The Graves County Sheriff earned \$7,441 as interest income on 2006 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENT
April 27, 2007
(Continued)

Note 5. Sheriff's 10% Add-On Fee

The Graves County Sheriff collected \$40,739 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Graves County Sheriff collected \$1,436 of advertising costs and \$3,612 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After three years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2006 taxes, the Sheriff had \$4,867 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Honorable Tony Smith, Graves County Judge/Executive
Honorable John Davis, Graves County Sheriff
Members of the Graves County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Graves County Sheriff's Settlement - 2006 Taxes for the period April 29, 2006 through April 27, 2007, and have issued our report thereon dated July 10, 2008. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Graves County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Graves County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Graves County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting which is a basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- Sheriff's Office Lacks Adequate Segregation of Duties

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Graves County Sheriff's Settlement - 2006 Taxes for the period April 29, 2006 through April 27, 2007 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Graves County Sheriff's response to the finding identified in our audit is described in the accompanying Comment and Recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and the Kentucky Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Krista Romaine
Romaine & Associates, PLLC

July 10, 2008

COMMENT AND RECOMMENDATION

GRAVES COUNTY
JOHN DAVIS, SHERIFF
COMMENT AND RECOMMENDATION

For The Period April 29, 2006 Through April 27, 2007

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

Sheriff's Office Lacks Adequate Segregation of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff or his designee should periodically compare a daily bank deposit to the daily collection report and daily cash sheet. Any differences should be reconciled. This could be documented by initialing the bank deposit slip, daily collection report, and daily cash sheet.
- The Sheriff or his designee should compare the tax settlement to monthly reports and bank records for accuracy. Any differences should be reconciled. This could be documented by initialing the tax settlement.
- The Sheriff or his designee should periodically compare tax payments to monthly reports. This could be documented by initialing the monthly report.
- The Sheriff or his designee should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. This could be documented by initialing the bank reconciliation and the balance in the checkbook.

Sheriff's Response: Measures already in place for most.